



La Seda de Barcelona turnaround completed with capital increase and relisting following debt restructuring in an English Court

Publicly listed [La Seda de Barcelona](#) (La Seda) became a name to remember in debt restructurings in August 2010 by becoming the first Spanish corporate to complete a debt restructuring by an English scheme of arrangement. The €1.4 billion petrochemicals group, European leader in plastic containers and PET resin manufacture for the drinks industry breached covenants on its €600 million syndicated loan early in 2009 and was delisted. It was finally relisted in August 2010 following acceptance of the turnaround plan and a €300 million increase in capital, €117n of which is a “debt for equity” swap.

La Seda began restructuring talks with its 54 member syndicate and various bilateral facilities holders to restructure its debt at the beginning of 2009. Negotiations stalled several times, before finally overcoming the major hurdle of unanimous syndicate acceptance earlier this year, when the company opted to implement its restructuring via a UK Scheme of Arrangement.

Cross border Turnaround Managers and legal advisers key to success

Fundamental to the change in the group's turnaround was the decision by the La Seda Board in June 2009 to appoint Carlos Gila of Gila & Co Madrid as Executive Vice President in

charge of the turnaround and restructuring. Recognising that the pan European nature of the group required greater cross border restructuring expertise Gila appointed cooperation partners Bryan Mansell & Tilley (BM&T) as turnaround advisers on matters outside of Spain and on Treasury management; Alan Tilley handling key stakeholder negotiations and David Bryan taking control of group cash management. La Seda has operations in Spain, UK, France, Germany, Italy, Portugal, Belgium, Greece, Turkey and Morocco.

The company also retained Freshfields in London as lead legal adviser under the direction of restructuring partner, Richard Tett.

At the outset, as advisers we were faced with considerable concern from all stakeholders as to the viability of the group and the credibility of management. Total debt was in excess of €1 billion with almost €200 million trade credit overdue to multinational petrochemical creditors and €200 million due to bilateral lenders, including €100 million project funding for a €400 million mega chemical facility in Sines, Portugal, construction of which was on hold. Influential syndicate members were pressing for the key €700 million pre-form manufacturing part of the group managed from Wrexham to be put into UK administration, whilst a resin plant in Wilton,



**The BM&T restructuring team:
John Mansell, David Bryan, Alan Tiley**

North East England was faced with winding up orders and legal threats for over €24 million of overdue amounts. Other creditors in other countries were pressing and threatening legal action.

Appointed too late to prevent the administration of the Wilton plant which filed on July 26th Gila and BM&T concentrated on drafting a group survival and turnaround plan including managing the fallout from the Wilton bankruptcy by cooperating with the administrator, Dan Butters of Deloitte, to maximise recoveries for the unsecured creditors, some of which were creditors of other group companies and whose support was important to the plan. The plan also included plant shutdowns to preserve working capital, tight cash and operational management, planned disposals and restructuring around a core group of Spanish and Italian resin plants and the pre-form companies managed from UK. The plan was accepted by the Board in August 2009. Negotiations commenced with the agent Deutsche Bank and other key members of the 54 member syndicate in September and was accepted by the majority following an Independent Business Review by PwC in October 2009. The PwC review concluded that accepting the plan could result in recovery in due course of over 90% and possibly 100% of the Syndicate debt rather than 35% in a Spanish bankruptcy.

In December at an emotional and vibrant Extraordinary General Meeting of shareholders the plan, which diluted existing shareholders to 17.2% of the company, was also accepted and the capital increase approved. Under the restructuring plan the company proposed a €300 million capital increase, half of which would result from a debt-for-equity swap with loan holders giving them 41.4% of the company. The other half would be provided with a €100 million investment from three major existing shareholders, and an additional €50 million capital to be raised in the open market through a pre-emption rights issue. The remaining

debt was rolled into a new €235 million term loan A priced at Libor+ 235bps; and an eight-year €226 million PIK loan (including accrued interest) priced at Libor+ 150bps.

Around €400 million of La Seda's bilateral and trade facilities were also to be restructured separately, with maturities extended from 2010 to 2012 and 2013. The bilateral facilities included a €120 million short term line provided to restart the Sines (Portugal) project which was in due course converted to €400 million project financing with a 23-year maturity.

First Spanish Company to restructure via UK Scheme of Arrangement

The syndicated loan agreement required unanimous approval from all 54 members. Despite strenuous efforts to secure 100% a small core of dissenters either would not or could not give positive assent. There being no Spanish mechanism to cram down the minority, with Freshfields and with support from the agent bank we looked at alternative routes. Freshfields' proposed solution was a UK Scheme of arrangement. But first we had to gain recognition that a Spanish company could justify use of an English law procedure. Secondly that an English Court Order would apply to non English based banks.

In mid-April following 75% in value syndicate support in a lock up agreement, La Seda petitioned to restructure its syndicated debt facilities under a UK Scheme of Arrangement. During a court hearing on 30th April, presiding Judge Justice Newey gave his endorsement to implement the restructuring via Scheme of Arrangement - not on the basis of a centre of main interest (COMI) shift, but based on proof that the Barcelona-based group had a "sufficient connection" with UK jurisdiction.

The company has a branch, and subsidiary company operations and employees in the UK, and its banking facilities are governed under English law.



"A COMI shift could be made only if the group was run from UK, which obviously was not La Seda's case," Richard Tett of Freshfields comments. A COMI shift would have also raised tax issues, given the company's listing and registration for tax purposes in Spain. "With a HoldCo a COMI shift would be pretty easy. But as an OpCo with a lot of subsidiaries, La Seda couldn't request that." La Seda has 22 plants across 11 countries. "While only the parent company was restructured via UK Scheme of Arrangement, all the subsidiaries benefitted from it," Tett concluded.

Spanish bank and international bank interest aligned

A UK Scheme of Arrangement is not a Bankruptcy process but part of English Company Law which was important for the Spanish company directors. It requires 75% approval from each class of lender impaired and eligible to vote. A restructuring under the Spanish jurisdiction would have required unanimous approval of the syndicate, would have been time consuming and the outcome less predictable. Even if all lenders were aligned, unanimous consent would have been impossible to reach for technical reasons. La Seda's syndicate includes an insolvent Icelandic bank unable, we were informed, to vote in favour of the eight year PIK note term element of the plan and Spanish Cajas some of which were under strict surveillance by the Spanish authorities.

During protracted negotiations, differences emerged between Spanish and international investors, despite the compact nature of the syndicate. However, over 95% of La Seda's lenders voted in favour of the workout proposal during a single class meeting on 21st May at Freshfields' offices. In the end no Spanish bank challenged the subsequent Court Order.

None of the 54 banks and funds which formed the syndicate owned controlling chunks of the debt. As a result negotiations were fairly complex. Spanish banks were naturally more supportive, but even the debt-for-equity plan encountered some resistance at the local level. The rollover of part of the original facilities into a PIK tranche, in addition to the senior term, was introduced to reduce the debt conversion into equity, which Spanish Cajas struggled to accept.

Separate agreements with lenders to La Seda's bilateral facilities proved harder, tackling local issues and jurisdictions; most particularly in Italy. Trade creditors did not take a haircut on their exposure but persuading them to stay from legal action was often difficult. That was a big achievement for BM&T who were closely involved in these negotiations. In addition managing the cash flow across a diverse group was challenging and critical to the eventual successful outcome. Tripping an insolvency trigger in any jurisdiction could have forced the group into Spanish

insolvency to protect the directors' interests. Crisis trips to Brussels, Zurich, Lisbon and Milan as well as London and Madrid were part of the process to keep the ship on even keel during the difficult days that syndicate approval was being sought.

In the end the turnaround and restructuring was a significant achievement and a real team effort from all involved. Syndicate doubts that the €50 million capital increase from the market would materialise ended in August of this year when the increase was oversubscribed. As a result of the oversubscription the debt-for-equity swap component implemented in the debt restructuring was lower than expected. Lenders converted €117 million of the €610 million syndicated debt plus interest into shares; €33 million less than €150 million under the original plan. Loan holders thus received the €33 million as a cash repayment at par on a pro-rata basis.

La Seda is now strongly recapitalised and trading positively. Trade creditors and bilateral lenders will get repaid in full, albeit deferred. Whilst the syndicate must also await the outcome of the PIK note conversion in five to eight years the lenders are already better placed than they would have been from a bankruptcy. Their equity is currently trading at about 80% of the 10 cents per share conversion value. Even the unsecured creditors from the Wilton administration will receive a higher than forecast dividend as a result of technical licence transfer and other assistance from La Seda primarily in the sale of the plant to a Korean company. And 150 jobs in North East England have been saved by the administrator. Having received strong letters of condemnation last July at the decision to file from local MP's and Union leaders we are still awaiting letters of thanks from them for help in saving the plant. Perhaps we will have to wait. The pleasure for BM&T and our Spanish cooperation partner, Carlos Gila was in the turnaround itself, working with excellent professionals in Freshfields, Deloitte and Deutsche Bank and for a successful outcome against the odds by lateral thinking and a firm belief that live companies are worth more than dead ones.

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